

## Message Text

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ACTION AF-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03  
  INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02 OPIC-03  
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R 141310Z SEP 78  
FM AMEMBASSY PRETORIA  
TO SECSTATE WASHDC 2534  
INFO AMCONSUL CAPE TOWN  
AMCONSUL DURBAN  
AMCONSUL JOHANNESBURG

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E.O. 11652: N/A  
TAGS: EFIN, EGEN, SF  
SUBJECT: PRIME MINISTER'S ADVISORY COUNCIL URGES LESS RE-  
STRICTIVE ECONOMIC POLICY

1. A PRIVATE SECTOR ECONOMIST TELLS US THAT AT RECENT CLOSED MEETING OF SOUTH AFRICAN ECONOMIC ADVISORY COUNCIL (EAC), THE GROUPS THAT HAD FOR SOME TIME BEEN URGING EASIER MOETARY POLICIES FINALLY GAINED THE ASENDANCY. HE EXPECTS THIS CHANGE SOON TO BE TRANSLATED INTO SPECIFIC GOVERNMENT MEASURES AIMED AT MOVING THE GROWTH RATE FROM LESS THAN THREE PERCENT, WHICH IS SEEN AS MAXIMUM THAT CAN BE ACHIEVED WITHOUT FOREIGN CAPITAL INFLOW, CLOSER TO FIVE PERCENT NEEDED TO MODERATE UNEMPLOYMENT PROBLEM AND RESTORE CONFIDENCE OF FOREIGN INVESTORS.

2. VIEWS OF RESERVE BANK, MOST COMMERCIAL BANKS, AND MINING HOUSES HAVE HERETOFORE DOMINATED IN EAC, RESULTING IN CONSERVATIVE POLICIES WITH PRIORITY GIVEN TO PROTECTING BALANCE OF PAYMENTS AND CONTROLLING COSTS AND RATE OF INFLATION. BUT, AFTER THREE YEARS, THESE POLICIES HAD BEEN SUCCESSFUL ONLY IN BRINING CURRENT PAYMENTS BALANCE AROUND, WITH NO  
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OTHER BENEFITS FROM THE ECONOMIC SACRIFICIES COUNTRY HAD BEEN SUBJECTED TO.

3. AT EAC MEETING A DEFINITE SHIFT OF FORCES IN FAVOR OF GREATER ECONOMIC STIMULUS TOOK PLACE. AMONG THE GROUPS FAVORING A CHANGE IN POLICY WERE THE MANUFACTURING SECTOR, DEPARTMENT OF FOREIGN AFFAIRS (BOTH OF THESE HAD

PREVIOUSLY BEEN LEADING VOICES FOR CHANGE), TREASURY, THE SA MILITARY WHICH HAS BEEN REPRESENTED ON THE EAC FOR THE PAST THREE YEARS, AND FACTION IN RESERVE BANK HEADED BY SENIOR DEPUTY GOVERNOR DE KOCK.

4. OUR CONTACT SAID NAMING OF DE KOCK COMMISSION OF INQUIRY INTO SA MONETARY SYSTEM A YEAR AGO AND MOSTERT COMMISSION TO INVESTIGATE EXCHANGE CONTROL EVASIONS COULD ONLY BE CONSTRUED AS VOTE OF LACK OF CONFIDENCE IN RESERVE BANK. DE KOCK WAS AT TIME NAMED SPECIAL ECONOMIC ADVISOR TO MINISTRY OF FINANCE WHICH GAVE HIM NEEDED OPPORTUNITY TO CHALLENGE CONSERVATIVE POLICIES OF RESERVE BANK GOVERNOR DE JONGH. LIMITED ECONOMIC STIMULUS ANNOUNCED IN GOVERNOR'S ANNUAL ADDRESS (PRETORIA 5013) IS TO BE SEEN AS REFLECTING CONSERVATIVE POSITION OF DE JONGH WHICH MAY SOON BE OVERRIDEN.

5. COMMENT: JUST HOW GOVERNMENT COULD UNDERTAKE A MORE STIMULATORY COURSE WITHOUT RENEWED BALANCE OF PAYMENTS PRESSURES WAS NOT STATED. HIGHER GOLD PRICE, FOREIGN LOANS REPORTEDLY NOW AVAILABLE FOR LONGER TERM (ALTHOUGH STILL AT HIGH INTEREST RATES) AND POSSIBLE GOLD SWAPS COULD CUSHION THESE PRESSURES FOR A TIME. IF GROWTH RATE IS NOTCHED UP IN 1979, CAPITAL INFLOW COULD IMPROVE.

6. EVEN IF THURNABOUT ON EAC WAS AS DRAMATIC AS PORTRAYED, LIMITED OFFICIAL USE

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IT IS NOT CLEAR HOW RAPIDLY OR RESOLUTELY GOVERNMENT WILL APPLY NEW POLICIES. DEVELOPMENT COMES AT AN AWKWARD TIME FOR DECISION-MAKING. PRIME MINISTER HAS BEEN OUT OF ACTION SINCE EAC REPORTED ITS CONCLUSIONS TO HIM IN LATE AUGUST. CHAIRMAN OF EAC AND PRIME MINISTER'S ECONOMIC ADVISER, PIET RIEKERT, AN INFLUENTIAL FIGURE FOR DECADES AND CONFIDANT OF PRIME MINISTER FROM TIME THEY WERE INTERNED TOGETHER DURING WORLD WAR II, RETIRED AT END OF AUGUST. RIEKERT HAS BEEN REPLACED BY SIMON BRAND, AN ABLE YOUNGER ECONOMIST OF DISTINCTLY LIBERAL CAST WITH A DEGREE FROM STANFORD. BRAND DOES NOT YET HAVE ANYTHING LIKE RIEKERT'S PRESTIGE IN ECONOMIC COMMUNITY OR STANDING WITH PRIME MINISTER.  
EDMONDSON

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## Message Attributes

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**Current Classification:** UNCLASSIFIED  
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**Control Number:** n/a  
**Copy:** SINGLE  
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**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 20 Mar 2014  
**Disposition Event:**  
**Disposition History:** n/a  
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